

TENNESSEE HOUSING DEVELOPMENT AGENCY
BOARD OF DIRECTORS
May 20, 2004

Pursuant to the call of the Chairman, the Tennessee Housing Development Agency Board of Directors met on Thursday, May 20, 2004, at 1:00 P.M. in Suite 1200, Parkway Towers, Nashville, Tennessee.

The following members were present: Tim Bolding, Susan Brown, Bill Bruce, Ann Butterworth for John Morgan, Jason Cavender for Commissioner Goetz, Janice Cunningham for Dale Sims, Winston Henning, Harold Hunter, Gerald Konohia, Eddie Latimer (Chair), Tom Mottern, Ralph Perrey, Brad Rainey, Gerald Reed for Secretary Darnell, Jerry Sisson, Jackie West, and Caestine Williams.

The following members were absent: Bob Cooper, Ronnie Knight, and Carl Tindell.

Chairman Latimer opened the meeting and offered appreciation to Governor Bredeesen for declaring June 2004 "Tennessee's Homeownership Month" and for being available for a photograph with Board members prior to the Board meeting.

Chairman Latimer opened the floor for public comment. No public comments were made.

Chairman Latimer called for a motion to approve the minutes of the March 18, 2004, meeting. Ms. Brown moved approval. Tim Bolding seconded. The minutes were approved.

Chairman Latimer gave the floor to Ms. Janice Myrick, Executive Director, to present staff recognitions. Pam Norris, Document Control Analyst in the Homeownership Division, received a certificate for 15 years service, and Ted Fellman, Chief Financial Officer, was recognized for 20 years service.

Chairman Latimer acknowledged and thanked Ms. Brown, Mr. Hunter, Mr. Sisson, and Ms. Williams for their service to the Board. Ms. Brown is resigning from the Board and terms will expire for Mr. Hunter, Mr. Sisson, and Ms. Williams.

Chairman Latimer asked Ms. Lynn Miller, General Counsel, to give the Bond Finance Committee report. Ms. Miller advised that the Committee recommends approval of the Schedule of Financing for Fiscal Year 2004-2005. Should the Board approve, the Schedule of Financing would be submitted to the State Funding Board for consideration. Chairman Latimer called for a motion to approve. Ms. Cunningham moved approval. Ms. Butterworth seconded. The Schedule of Financing for Fiscal Year 2004-2005 was adopted.

The second Bond Finance Committee item was the method of sale of \$100,000,000 Homeownership Program Bonds, Issue 2004-2. Ms. Miller noted that the sale of Issue 2004-2 Bonds was authorized at the March 18, 2004, meeting; however, the method of sale was not considered at that time. The Bond Finance Committee directed staff to proceed with a negotiated sale. Staff are working with the current underwriter, UBS PaineWebber, toward an expected pricing date after June 1, 2004. No action is necessary on this item.

The last Bond Finance Committee item was consideration of a Reimbursement Resolution connected with the Issue 2004-2 Bonds. Ms. Miller advised that the Reimbursement Resolution was not considered at the March Board meeting as it was premature for making a decision. With an expected June pricing, and an anticipated closing in mid-July, the Reimbursement Resolution is necessary due to

the potential for a gap in resources during that time. Ms. Miller reported that the Bond Finance Committee recommends approval of the Reimbursement Resolution, authorizing reimbursement of up to \$30 million from the proceeds of the Issue 2004-2 Bonds. Chairman Latimer called for a motion. Mr. Reed moved approval. Mr. Bruce seconded. The motion carried.

Mr. Latimer commended staff for the recent management of interest rate changes and bond sales resulting in \$7 million remaining available for 0% mortgages. Mr. Latimer asked staff to provide a brief description of negotiated and competitive sales at the July 2004 Board meeting.

Audit & Budget Committee items were next on the agenda. Chairman Latimer advised that State Audit has begun an audit of the Agency's federal programs and financials. Chairman Latimer referred members to the informational memorandum regarding the Agency's insurance coverage. No action was needed.

The next Audit & Budget Committee item was the Conflict of Interest Policy. Mr. Latimer called on Mr. Sisson to summarize the Audit & Budget Committee's action on the item. Mr. Sisson reported that the Committee discussed in detail how to set a policy governing participation in general program discussions versus discussion of specific details such as scoring, when a Board member could not vote, and whether or not a Board member or an entity with which they are affiliated should or could participate in Agency programs. The Committee recommends Board adoption of the May 10, 2004, memorandum from Lynn Miller, General Counsel, and Ron Erickson, Director of Internal Audit, included in the Board packet, to be used as guidance, except for Section IV.B.5., which the Committee recommends be deleted. The Committee also recommends that staff be directed to develop a unified conflict of interest policy for consideration at the Board's fall planning meeting. Mr. Sisson moved approval of the Committee's recommendation ("Mr. Sisson's Motion"). Mr. Perrey seconded Mr. Sisson's Motion. Mr. Sisson then described the effect of this action. Mr. Reed moved to amend Mr. Sisson's Motion with a motion to retain Section IV.B.5 of the May 10, 2004, memo as part of the guidance considered by the Board ("Mr. Reed's Motion"). Mr. Rainey seconded Mr. Reed's Motion.

Following discussion regarding the level of participation in Board discussions that is appropriate when a Board member has an interest in a program administered by THDA, Mr. Bruce moved to table the entire matter ("Mr. Bruce's Motion"). Mr. Perrey seconded Mr. Bruce's Motion and, via a show of hands, Mr. Bruce's Motion passed. Ms. Butterworth then moved that staff develop the unified policy as recommended by the Audit & Budget Committee ("Ms. Butterworth's Motion"). Mr. Rainey seconded and Ms. Butterworth's Motion carried.

Chairman Latimer asked Ron Erickson, Director of Internal Audit, to update members on the Agency's Financial Integrity Act Plan for 2004. Mr. Erickson summarized the material in the Board packet which included copies of correspondence from outside entities regarding recent examinations and reviews. Staff base their determination of the Agency's internal control structure on control procedures such as these. There was no action on this item.

Chairman Latimer called on Ms. Brown to provide the Grants Committee report. The first agenda item was the 2004 HOME Applications and Ms. Brown summarized the funding breakdown. On the recommendation of the Grants Committee, Ms. Brown moved approval of the 2004 HOME funding matrices as detailed in the Board packet. Mr. Reed seconded. The motion carried.

Ms. Brown reported that the Grants Committee deferred the American Dream Downpayment Initiative (ADDI) item to the July 2004 meeting.

The final Grants Committee item was review of West Tennessee Legal Services' request for \$200,000 from THDA to be used as leverage in a grant request to Rural Housing and Economic Development (RHED). THDA grant funds would be derived from HOME administration funds and the funds would be used to produce 8 affordable housing units in West Tennessee. Ms. Brown stressed that THDA funds would not be used for technical assistance or consulting. The THDA funds could assist rural West Tennessee CHDOs to gain experience that could assist them in future HOME applications to THDA. On the recommendation of the Committee, Ms. Brown moved approval of the \$200,000 in HOME funds for West Tennessee Legal Services. Mr. Reed seconded the motion. The motion carried.

Mr. Sisson reported on the Policy & Programs Committee items, all of which were staff reports only. The Agency presently has six master loan servicers and THDA directly services 350-400 loans. Staff plan to request funding in the fall for new positions to allow an increase in the number of loans THDA directly services. The Agency's mortgage resources are adequate to maintain the current level of production in the single family mortgage loan program and multi-family tax exempt bond program. Research, Planning and Technical Services (RPTS) staff analyzed loan origination data and prepayment, default and bankruptcy data. Mr. Sisson encouraged members to review the material provided in their packet. Staff are increasing efforts to expand the mortgage loan program to rural areas. Expanded training has increased the number of training requests, and the Agency has sponsored more events across the State in order to market THDA loan products. A more user friendly loan process with streamlined paperwork requirements, along with increasing acquisition and income limits should aid in marketing THDA's loans. A wholesale lending pilot program with Guaranty Trust will soon be launched that may increase program participation.

The last Policy & Programs Committee item was action on a proposed rule change for the Section 8 Housing Choice Voucher Program. The rule change replaces outdated language and information and puts the Agency in a better position to administer the program according to HUD's current requirements. The rule change would allow for HUD program requirement changes to be easily incorporated into the Agency program. A public rulemaking hearing was held on April 16, 2004, at which no public comments were received. Upon the recommendation of the Policy & Programs Committee, Mr. Sisson moved to repeal the current Agency rules related to the Housing Choice Voucher Program and adopt the proposed rule change. Mr. Bruce seconded the motion. The motion passed by the following roll call vote:

<u>Member</u>	<u>Yes</u>	<u>No</u>	<u>Absent</u>	<u>Abstain</u>
Tim Bolding			X*	
Susan L. Brown	X			
William R. Bruce	X			
Winston Henning	X			
Harold R. Hunter	X			
Ronnie Knight			X	
Gerald Konohia			X*	
E.D. Latimer	X			

<u>Member</u>	<u>Yes</u>	<u>No</u>	<u>Absent</u>	<u>Abstain</u>
Thomas Mottern			X*	
Ralph Perrey	X			
Brad Rainey	X			
Jerry Sisson	X			
Carl Tindell			X	
Jackie West	X			
Calestine Williams	X			
(Janice Cunningham for) State Treasurer	X			
(Gerald Reed for) Secretary of State	X			
Governor's Designee			X	
(Ann Butterworth for) Comptroller	X			
(Jason Cavender for) Commissioner of F&A	X			

*Left meeting prior to roll call vote

Following action on these items, Mr. Bruce offered his thanks to Mr. Sisson for his leadership of the Policy & Programs Committee and in his position of Board Vice-Chairman. Mr. Bruce said that Mr. Sisson's conscientious and hard work is greatly appreciated. Mr. Reed asked for a round of applause for Ms. Brown, Mr. Hunter, Mr. Sisson, and Ms. Williams for their service. Ms. Miller pointed out that members expiring terms remain active until replacements are appointed.

Ms. Myrick provided information on other Board matters. Ms. Myrick shared that the Comptroller's Office has reported that all State employees are being compensated at 25% below market. In 2002, Agency staff conducted a study on THDA salaries and also found that staff compensation was 25% below market. Staff continue to work with the Administration for increased employee compensation without budget increases.

Ms. Myrick encouraged members to review the findings in another report released by the Comptroller's Office, *Seeking a way out, Services and challenges affecting Tennessee's poor*. Ms. Myrick advised that the report includes housing issues and the report suggests that the appointment of a poverty cabinet might aid in solutions to issues relating to the poor.

Ms. Myrick updated the Board on proposed changes to the Section 8 Housing Choice Voucher Program. According to HUD, the proposed flexible voucher program is going forward. The program is a

cost-containment program and drastically changes the Section 8 Voucher Program. The Agency recently received correspondence from HUD indicating a current year funding cut, to be retroactively effective January 1, 2004. Staff are attempting to ascertain exactly where these cuts will be in order to prepare for them. It appears that THDA would have an approximate shortfall of \$500,000 in administrative fees for the voucher program. Ms. Myrick said that some housing agencies are in the process of terminating vouchers. Although THDA will not be terminating vouchers, the Agency has withdrawn vouchers that have not been disbursed. Mr. Henning noted that the Jackson Housing Authority is not re-issuing terminated vouchers at this time and added that the funding cuts will have a substantial effect on families receiving these services. Chairman Latimer noted that opposition to the proposed changes may impact the outcome. Ms. Myrick noted that one particular syndicator indicated apprehension in underwriting any developments that include a HAP contract. The Agency and local housing authorities are watchful of HUD correspondence related to the flexible voucher program and are preparing a response to HUD with specific ideas for the program.

In Federal legislation, the Senate passed a budget that includes a temporary repeal of the ten-year rule.

Ms. Myrick encouraged members to let her know as soon as possible if interested in attending the NCSHB Educational and Development Workshop. The workshop will be held in Whitefield, New Hampshire, August 8-10. Travel requests must be submitted soon.

With no other business to come before the Board, the meeting adjourned.

Respectfully submitted,

Janice L. Myrick
Executive Director

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